

LOUISIANA'S FINANCIAL AND BUDGET ISSUES FOR FY 03 AND BEYOND

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REVENUE ISSUES

The FY 03 revenue forecast adopted by the Revenue Estimating Conference on January 7, 2002, is \$5.928 billion. By law, this forecast cannot include \$593 million in taxes that are set to expire on June 30, 2002, until they are renewed by the Legislature. The Louisiana Constitution prohibits the Legislature from adopting a budget that exceeds the Official Forecast of revenue adopted by the Revenue Estimating Conference. So, when the Executive Budget and General Appropriations Bill for FY 03 are prepared, they will likely have a "below-the-line" section for those items that are to be funded with revenue generated by the tax renewals.

If the Legislature were to renew all of the expiring taxes (see below), the new revenue forecast for FY 03 would be \$6.521 billion:

4¢ sales tax on food and utilities	\$466 million
1/2 of excess itemized deduction on state income tax	90 million
\$25 per child in K-12 education income tax credit	18 million
4¢ per pack cigarette tax	14 million
2.5% excise tax on automobile rentals	<u>5 million</u>
Total	<u>\$593 million</u>

If all of the expiring taxes were to be renewed by the legislature, the revenue forecast for FY 03 would only be \$110 million more than the forecast used to fund the current year's budget (FY 02) for a growth rate of 1.3%. This relatively small growth rate, influenced primarily by lower oil and gas prices and a slow-down in the tourism industry after 9/11, doesn't even cover the cost of inflation, let alone provide funds to address some very large expenses that must be dealt with in FY03.

MAJOR EXPENDITURE ISSUES FOR FY 03

Louisiana is facing some major expenditure issues in FY 03. Many of these expenditure requirements are unavoidable and must be funded in FY 03. Because of limited additional revenue in the upcoming year, budget cuts in other areas are likely. According to Continuation Budget figures prepared by the Division of Administration, the following budget items are of the greatest concern for FY03:

Mandated/Difficult to Avoid General Fund Expenditures

- Risk Management premium increases to cover road hazard claims and to restore reserves to an acceptable level \$41 million
- Increase in employer share of Group Benefits payments due to legislation designed to put the program on an actuarially sound basis 32 million

• Increased number of inmates in local jails because savings anticipated from 2001 legislation did not materialize	9 million
• Juvenile justice settlement costs for lower pupil-teacher ratios	3 million
• Formula growth in Minimum Foundation Program	45 million
• Loss of dedicated and self-generated funds in Medicaid program requiring replacement with State General Fund	78 million
• Election expenses/ballot printing due to Congressional elections	7 million
• Debt service increase due to new bond sales and completion of defeasance plans	53 million
• Supplemental pay for police, firemen, & deputies	2 million
• Homeland security annualizations for Dept. of Public Safety, Office of Public Health, and Military	<u>12 million</u>
Total	<u>\$282 million</u>

Other FY 03 Budget Issues

• Growth in the Medicaid Program due to the anticipated increase in the number of eligibles and the overall cost and utilization of Medicaid services	\$90 million
• Depletion of dedicated funds for operation of DEQ requiring replacement with State General Fund	15 million
• Replacement of self-generated revenue in DNR with State General Fund	4 million
• Revenue shortfall in SELF Fund for teacher and faculty pay raises	18 million
• Higher education funding increase in order to maintain funding at FY 02 level of 76.6% of formula	25 million
• Inflationary increase for all budget units	61 million
• Merit raises for state employees	33 million
• Reduction in funding to completion of backlog in endowed chairs	-25 million
• Reductions in TOPS (\$2.5 m) and PIPS (\$3 M) due to decline in participation from FY 02	-6 million
• Increased rent for new state office buildings	<u>8 million</u>
Total	<u>\$223 million</u>

New Issue Not Included in Continuation Budget

• Loss of federal financial participation in prisoner healthcare services provided by the LSU Health Care Services Division per a letter received in February 2002 from the Dallas Regional Office of the Center for Medicare and Medicaid Services	<u>\$20 million</u>
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Even if the Official Forecast for FY 03 is not reduced when more information on current year collections becomes available there will still be difficulties in the out-years because of looming budget issues that are likely to materialize. For FY 03, the state will have \$110 million in new revenue to cover about \$525 million in expenditure growth, and this doesn't include any new economic development and other initiatives requiring budget or tax expenditures, or Louisiana's share of the loss in federal domestic spending in FY 03. The governor has issued an executive order (MJF 02-04) that freezes positions in selected state agencies in the current year to get a leg up on the looming problem for next year. Even with the freeze, the budget for most, if not all state departments, will be smaller in FY 03 than it is in the current year.

Funds for Capital Expenditures are in Much Better Shape

While recurring funds for the operating budget are in short supply, funding for the capital budget is in much better shape. The Tax Amnesty Program that was established by Act 136 of the 2001 Regular Session has generated \$173.7 million in the current fiscal year. Of this amount, \$133.7 has been recognized by the Revenue Estimating Conference as non-recurring revenue and available for expenditure in accordance with constitutional guidelines in the current fiscal year. When the Conference meets again later in this fiscal year, it will likely add another \$15 million to the \$133.7 that has already been recognized.

Non-Recurring Revenue Available For Expenditure in FY 02 (in million \$'s)

Amnesty Program funds recognized by REC as non-recurring	\$133.7
General Fund Surplus for FY 01	27.3
New Amnesty collections not yet considered by REC	<u>15.0</u>
Subtotal	\$176.0
Less: 25% for Rainy Day Fund	<u>-44.0</u>
Subtotal	\$132.0
Add: Additional surplus using Act 1092 of 1991 method of computing the year-end surplus	42.7
Less: 25% for Rainy Day Fund	<u>-10.7</u>
TOTAL	\$164.0

RADAR SCREEN ISSUES

In addition to the immediate issues listed above, there are a number of other budget issues that anyone who wants the complete picture of where Louisiana stands financially should keep on their "radar screen." These issues are as follows:

Reserve Deficit in Road Hazard Self-Insurance Line

Act 1024 of 1990 prohibited monies in the Transportation Trust Fund, either “directly or indirectly” from being used to pay insurance settlements and court ordered judgments related to “road hazard” claims. The category of road hazards covers actions against the state for inadequate road and bridge design and/or maintenance. Since the enactment of this legislation, the state has not funded premiums in the Road Hazard Insurance line. However, because judgments and out-of-court settlements in this line have to be paid, the Office of Risk Management has been borrowing funds from other lines of insurance that it administers.

This interfund borrowing, which totals \$246 million, includes a number of lines that involve federal cost participation. In order to have sufficient funds in these other lines of insurance to cover \$246 million in borrowing by the Road Hazard line, premiums in the other lines of insurance had to be inflated well beyond what the premium would have otherwise been for those lines.

The situation of the interfund borrowing of \$246 million has come to the attention of the federal government through an audit finding reported in the state’s financial statements. Unless the state takes action to cover road hazard claims in a manner that does not require inflating premiums of other lines of insurance (that include federal matching funds), the state runs the risk of having the federal government withdrawing all of its participation in insurance costs.

Disallowance of Provider Fees due to the Elder Care Payments To Hold Private Pay Nursing Home Patients Harmless

In 1992, the legislature authorized the collection of “provider fees” to generate income for the Medicaid program. These were to be per bed per day fees for nursing homes and facilities for the disabled and per prescription fees for pharmaceutical services. Under federal regulations, these fees had to be broad based and hold no payers harmless from paying the fees, meaning all services at all qualifying facility types would be assessed the fee regardless whether it was a Medicaid or “private pay” patient. At the same time, the state created a method by which the Office of Elderly Affairs would provide a stipend for private pay patients in nursing homes. The stipend was equal to the daily provider fee charge. In 1999, the federal government determined that the Elder Care stipend was a violation of their hold harmless rule and disallowed the use of federal funds to match any provider fees collected for nursing home beds during the duration of the Elder Care program (October 1992 through April 2000). The state’s liability for this disallowance is estimated at \$322 million. The matter is currently in negotiations with resolution expected within the next year.

State Uncompensated Care Program That Provides Health Care for Uninsured Individuals can only Grow by \$7 Million in FY03 Before Reaching the Federally Imposed Cap. Expenditures Over the Cap will have No Federal Financial Participation

In 1981, Congress required states to make additional Medicaid payments to hospitals that provide treatment for a “disproportionate share” (DSH) of low-income patients. (In Louisiana, these DSH payments are budgeted in Medicaid’s Uncompensated Care Costs Program.) Generous federal reimbursement rates in the early 1990s saw Louisiana’s federal DSH component climb as high as \$1.2 billion in 1994 and 1995. Since that time, federal changes in Medicaid’s DSH component have induced Louisiana to control the overall growth of its program.

In 1997, Congress passed the Balanced Budget Act (BBA) laying the framework to control federal spending. One of the components of this legislation was the authorization of a cap on the expenditure of federal funds on DSH payments. After a two year reprieve from the DSH cap under the Benefits Improvement and Protection Act (BIPA) of 2000, the BBA (1997) DSH cap schedule will be back in effect for FY 2003.

For FY 2003, the DSH federal funds cap is set at \$631 million. This only allows a growth range of \$5 million in federal funds or \$7 million total funding (including the estimated state match) from FY 2002 to FY 2003. After Louisiana reaches the cap, any additional DSH expenditures will be one hundred percent (100%) State General Fund.

There is some talk of inflationary adjustments to the cap; but the federal government has not finalized their plans or the cap projections for any fiscal years beyond FY 2002. Nor is there is any increase in the President’s Budget for FFY 2003.

Highway Construction and Maintenance Costs Grow Faster Than Revenue Stream From Gasoline and Special Fuels

The motor fuels tax, the major source of revenue to the transportation trust fund, is projected to grow by 1% next fiscal year, while the cost of highway maintenance and construction increase by about 4.5% annually. These revenue and expenditure growth rates serve to diminish the amount of funds available for future highway, port, flood control, and airport maintenance and construction needs. A considerable portion of the port, flood control, and to some extent, the highway construction budget, is also funded with general obligation bonds that are serviced with State General Fund revenue.

Several expenditure items have reduced the funds available for highway maintenance and construction including. These items include an \$8.1 billion backlog of maintenance and construction needs which has increased an average 7.1% annually in the last four years; an annual construction inflation rate of 4.5%; and increasing dedications of transportation trust funds for other programs such as State Police activities. The Department of Transportation and

Development (DOTD) estimates that an additional \$200 million per year is needed to alleviate the growing backlog of highway maintenance and construction needs. The following table summarizes by need the current backlog in highway construction and maintenance.

HIGHWAY AND BRIDGE NEEDS (in millions)			
Category	Type of Improvement	Cost	Percent of Total
Preservation	Resurfacing, Bridge Replacement	\$1,481	18.2%
Safety	Reconstruction, Widening, Shoulders	\$2,326	28.6%
Capacity	Major Widening, Adding Lanes	<u>\$4,336</u>	53.2%
Total		\$8,143	

Source: La DOTD, Highway and Bridge Needs, 2000.

The following chart highlights the increased use of dollars in recent years directed towards other transportation activities at the expense of highway construction and maintenance. The proportion of appropriated dollars has increased from 14.6% of available funds in FY96 to 18.8% of available funds estimated in each fiscal year.

**APPROPRIATION OF TRANSPORTATION TRUST FUNDS
TO AREAS OTHER THAN HIGHWAYS
(in millions)**

Program	FY96	FY97	FY98	FY99	FY00	FY01	FY02
Flood Control	\$10.0	\$10.0	\$10.0	\$0.1	\$0.1	\$5.0	\$10.0
Ports	\$15.0	\$15.0	\$24.5	\$2.0	\$18.0	\$25.0	\$24.5
State Police	\$10.7	\$11.7	\$11.7	\$16.3	\$30.8	\$40.4	\$40.3
Parish Tran. Pgm.	<u>\$42.3</u>	<u>\$42.3</u>	<u>\$43.0</u>	<u>\$43.0</u>	<u>\$43.0</u>	<u>\$38.7</u>	<u>\$39.2</u>
Total	\$78.0	\$79.0	\$89.2	\$61.4	\$91.9	\$109.1	\$114.0
TTF-Reg Revenues	\$535.8	\$528.0	\$584.0	\$586.8	\$601.9	\$600.0	\$607.2
Percent of Revenue:	14.6%	15.0%	15.3%	10.5%	15.3%	18.2%	18.8%

Sources: General Appropriation and Capital Outlay Acts
Revenue Estimating Conference, Official Revenue Estimates

Ports are a vital component of Louisiana's transportation infrastructure. Louisiana's ports are currently feeling the pressure from the expansion of containerized cargo facilities at the Ports of Houston and Beaumont. As of this writing, a site has not been chosen for the Millennium Port. Unless funds are found for this venture in the near future, the Texas ports will capture a majority share of the valuable containerized cargo trade. Louisiana will still have its deep-water ports, but will be relegated to importing and exporting low-value bulk cargo.

Louisiana Teacher Salaries Still Below Southern Average: Cost of Catching Up Increases Each Year

Regardless of the methodology used to calculate teacher salary differentials, the average salary of Louisiana's teachers is below the southern average. Using the "old method," the average pay (\$36,300) for Louisiana's 59,000 teachers is still below the southern average (\$39,381) by \$3,081. Using this methodology for determining the cost of reaching the SREB average would require approximately \$205 million.

A new methodology developed by the Education Estimating Conference for calculating teacher pay for comparison purposes takes into account the cost of living in the SREB states along with experience, and educational degree earned.

Using this methodology, the EEC has determined that the current average teacher salary in Louisiana (\$36,300) is \$1,547 below the adjusted regional

average (\$37,847). Using this “new” methodology for determining the cost of reaching the regional average would require approximately \$103 million.

The MFP Resolution proposed by BESE and adopted by the legislature in 2001 calls for 50% of the MFP growth to go to teachers pay for the next three years. With a growth projection of \$45 million for the MFP in FY 03, teacher pay will increase less than 1% (.93%). While this will keep La. teachers from falling even farther behind, it will do little if anything to bridge the salary gap.

The Resolution also creates a dilemma for local school systems who find themselves being forced to move a portion of the annual growth in state support to teachers salary while trying to cope with rising operational costs including health insurance benefits and the incorporation of technology into the classrooms.

There is also the issue of pay increases for Louisiana’s 38,000 school support personnel. For each \$100 increase in pay of this group, the cost would \$4.4 million including benefits.

Tax Restructuring Necessary for Long-Term Budget Stability and Economic Development, but Difficult to Achieve

The biennial expiration of \$593 million of taxes strongly suggests that the state should stabilize its tax base. There is also strong evidence that a major tax restructuring is in order. Unfortunately, pressure exerted by special interest groups has resulted in some piece meal tax restructuring that is certainly not progressive. The state effectively repealed the inventory tax by indemnifying local government from the loss of \$150 million annually through a tax credit to business for ad valorem taxes paid on inventory. Then, a few years later, to compensate for the revenue loss due to the tax credit, it was necessary to increase the sales tax on food and utilities by 1¢.

There is currently talk about phasing out the portion of the corporate franchise tax that applies to debt equity and reenacting the tax credit for CAPCO’s (currently \$400 million in unredeemed credits outstanding) both in the name of “economic development.” Neither should be attempted outside a comprehensive reevaluation of how the expenditure budget, the tax structure, and the state’s economic development strategy should work together. A piece meal approach will not improve the state’s economy, and if attempted while the state of the fisc is in such dire straits, such action would run the risk of creating budget problems on the magnitude of those experienced during the collapse of oil prices in the mid 1980’s. A “phase-out” of the corporate franchise tax would have less serious consequence than an outright repeal, but this approach is still a piecemeal solution to a very complex problem.

Risk Management Reserves Will Dip to Their Lowest Levels in Six Years at the end of FY 02

The reserve fund balance in the Office of Risk Management's will dip to a six-year low of about \$14 million at the end of the current fiscal year. The actuarial unfunded liability of the program is in the range of \$900 million. With reserves of only \$14 million, the state's exposure is considerable. This coupled with the possibility of very expensive claims such as those arising from the vinyl chloride incident in Plaquemine, Louisiana and the recent multimillion dollar judgment awarded oyster fishermen in the Caernarvon case, means that the state will remain under pressure to increase funding for this program at the expense of economic development, education, and health care.

In both the previous and current fiscal year, the appropriation of self-generated revenues to the Office of Risk Management contains significantly less premium income revenue than the amount needed to fund anticipated payments of claims for the fiscal year. This action requires the use of diminishing reserve funds to meet current needs. This budget practice further redirects funds that should be used for premium payments to other budgetary items. The table below estimates the end of year reserve fund balance.

Calculation of Fund Balance Fiscal Year 2002	Amount
Actual Fund Balance FY00	\$172,817,069
Use of Reserves FY01 (Includes BA-7 \$46M)	<u>\$56,745,897</u>
Actual Fund Balance FY01	\$116,071,172
Risk Management Appropriation FY02	
Agency Premium Billing - Anticipated Receipts	\$98,487,789
Risk Management Reserve Fund For Claims	<u>\$55,258,721</u>
Total Budget	\$153,746,510
Anticipated Claims Need	\$170,037,394
Additional Need for Contract Litigation	<u>\$2,000,000</u>
Total Need	\$172,037,394
Less Claims Program Budget	<u>\$125,037,394</u>
Additional Reserves Needed FY02	\$47,000,000
Projected Use of Reserve Funds FY02	
BA-7 Administration (Methods Contract)	\$287,000
Appropriated for Additional Claims Payments	\$55,258,721
Projected Additional Reserves Needed (BA-7)	<u>\$47,000,000</u>
Total Projected Expenditures of Reserves FY02	\$102,545,721
Projected Reserve Fund Balance FY02	\$13,525,451

Notes: The budget request for FY02 originally projected \$164,146,859 in actuarial claims needs.
The agency appropriation included \$46,034,304 in reserve funds.
The Reserve balance includes \$10.6 million in Future Medical Care Funds set aside for future medical care and related benefits.

Source: Office of Risk Management, Fiscal History, February 28, 2002

9-11 and Recession Take Toll on Pension System Investment Returns

Louisiana's three state-wide pension systems all show large unfunded accrued liabilities. The State Constitution that the state adopt a funding schedule that will eliminate these liabilities by 2029. In order to accomplish this, the state is assessed an extra charge on the retirement contribution it makes for state employees and teachers. The size of the charge is determined, in large part, by how much each retirement system earns on its investments.

During the heyday of the stock market, the charges were kept in check because the annual rates of return on investments were in the double-digit figure range. With the recent downturn in the stock market, earning on investments have declined considerably. For the years FY99, FY00, and FY01, LASERS earned **13.1%, 13.78%, and .37%** respectively on its investments (FY02 returns through 1/31/02 were -2.7%). Investment returns for Teachers Retirement for the same period were **10%, 14.4%, and -4.1%** (FY 02 returns through 1/31/02 were -4.2%). Unless there is some significant turnaround in the stock market, the average return on investments for these two systems could very well be in the single digit range for FY02 and FY03. The State Police Retirement System is in no better shape as far as earnings are concerned. Since the three-year average of portfolio earnings is a major factor in determining the state's retirement contribution rate, the state's contribution rate could increase dramatically when the high rate of return years work their way out of the average.

Louisiana Appropriates Over \$350 Million Annually To Local Governments

Louisiana provides more than \$350 million in direct support to local government each year. This dependence on the state is due in large part to the homestead exemption that eliminates a major portion of local government's revenue base. The homestead exemption also forces local millages to be unusually high in order to generate sufficient revenue for local services because the taxable base is reduced by the homestead exemption. High millages are a psychological factor in the defeat of many local tax propositions because voters frequently see local assessments that, in the aggregate, exceed 100 mills. Defeat of local millage propositions further increases local pressure on the state for financial support.

State and Local Government Employee Growth Rate in Louisiana From 1995 to 2000 Exceeds Population Growth Rate by 84%

Louisiana's population only grew by 3.2% between 1995 and 2000 but its state and local workforce grew by 5.99% (see chart). Louisiana's workforce grew 84% faster than its population grew during that 5-year period. Not surprisingly, Louisiana ranked first in the growth of its workforce compared to the other 15 Southern Regional Education Board states. Even though it is nearly impossible to tell from census data which sector, state or local, accounts for the growth, workforce growth is an issue for the state because many of its costs are tied to

local government employment growth (supplemental pay for municipal police, firemen, and deputy sheriffs and teacher pay supported by the MFP). The cost of payroll and benefits is the largest single expense of most governments. Until the number of employees is reduced at both the local and state levels, balancing the budget will continue to be an annual problem.

**COMPARISON OF POPULATION AND WORKFORCE GROWTH
SOUTHERN REGION STATES STATES
1995 to 2000**

State	POPULATION State & Local Growth 1995-2000	WORKFORCE State & Local Growth 1995-2000	Workforce Growth Rate as a percent of Population Growth Rate	Rate
Louisiana	3.26%	5.99%	84%	▲
Kentucky	4.84%	8.37%	73%	
Mississippi	5.72%	9.22%	61%	
Maryland	5.43%	8.36%	54%	
Alabama	4.33%	6.17%	43%	Faster
North Carolina	12.02%	14.12%	17%	
Tennessee	8.55%	9.57%	12%	
South Carolina	8.43%	9.36%	11%	
Workforce growth equals population growth —————▶			0%	
Virginia	7.23%	6.88%	-5%	
Arkansas	7.79%	5.20%	-33%	
Florida	12.67%	7.95%	-37%	Slower
Texas	13.74%	4.62%	-66%	
Georgia	13.88%	1.26%	-91%	
West Virginia	-0.67%	-1.37%	-104%	▼

Source U.S Census Bureau 2000 Data

Many of the State's Service Delivery Systems Are Outdated and Expensive to Operate

Louisiana delivers many critical public services with outdated delivery systems that are expensive to operate. Two examples of this can be found in health care and higher education. Occupancy rates in many of the state's public and private in-patient hospitals are well below capacity while the hospitals maintain staff, equipment, and facilities to service full capacity patient loads. Maintaining this dual system of health care is expensive to individuals and employers as well as the state. The duplication of infrastructure and support services in private and public health care facilities results in higher insurance premiums for private sector health coverage as well as a drain on the state fisc from the operation of public hospitals.

The same is true in higher education where many of the state's public universities are on the verge mediocrity because financial resources are not

available to sustain the many campuses that have evolved over the years. Current estimates indicate that it would take an additional \$288 million in FY03 to bring Louisiana universities up to the average funding level of their peer universities in the southern region.

Since there is nothing in the long-range forecast to suggest that the existing tax structure will generate this kind of revenue in the near future it is unlikely that the funding level of higher education will change soon. This situation seems to beg the question that if there will not be sufficient funds anytime in the near future to fund Louisiana universities at the average for their southern peers, shouldn't policy makers consider reducing the number of universities. By channeling existing higher education resources to a smaller number of well-financed institutions, Louisiana might have a shot at competing with its sister states for quality faculty and students in the future.

Solutions to these problems involve dealing with geographic and demographic politics that appear to be impossible at this time.

State Agencies will have to Absorb the Cost of Merit Raises and Inflation for the 12th Year in a Row. How Much Longer can this Practice Continue?

For the past 12 years state agencies have had to absorb the cost of merit raises (\$33 million in FY 03) and inflation (\$61 million in FY 03). These are real costs and represent a real outflow of cash to state agencies. By making agencies absorb these costs, the state is able to free up nearly \$100 million to be spent on other government costs. It works the same as if revenue grew by an extra \$100 million each year.

There are a number of ways that agencies can cope with having to absorb these costs year after year. One is that agencies were overbudgeted to start with, so they had some cushion to absorb the costs. Another is that they had the productivity gains made possible by the explosion of technology over the past 12 years. A third way is that state agencies have actually become more efficient in providing services. Unfortunately, there will be a point in time when the cushion is gone; when productivity gains from technology become marginal; and, when all of the efficiencies that can be achieved using the current service delivery model have been achieved.

Whether that day is near at hand or sometime well out into the future is not known. It is safe to say that the state is 12 years closer to that day whenever it might be. When the effect of this practice does begin to manifest itself, it will show up in the small agencies first. These agencies have small staffs and don't have the budget flexibility created by being able to manage vacancies like the larger agencies have.

The huge build up in the number of state employees that the Edwards and Roemer administrations are frequently criticized for has actually been one of the reasons that agencies have been able to absorb merit and inflationary costs.

The excessively large workforce represents a substantial part of the “fat” that was mentioned earlier in this discussion.

The practice of having agencies absorb the cost of merit raises and inflation each year to deal with budget shortfalls cannot continue forever. This budget tactic is not something that will stop government in its tracks, but it has reached the point where policy makers can no longer ignore the implication it has for the state’s fiscal stability.

The Turnover Rate for the State Workforce was 23% for the Year 2000 (the last year for which figures are available)

The chart below shows the annual turnover rate of state's 66,000 civil service employees for the last ten years for which data is available. The rate of turnover has steadily increased during this time. The most recent across-the-board adjustment to the pay plan for civil service employees was a 4% increase on July 1, 1990. Contributing to the high turnover rate is the fact that civil service salaries average 23% less than the Louisiana private sector job market. High turnover rates result in both increased costs of hiring and training and decreased productivity from the workforce. The cost of a 1% pay raise for civil service employees including related benefits is approximately \$20 million. The general fund portion of that cost is about 55% or \$11.2 million. The cost of making civil service pay competitive with that of the private sector should be weighed against the cost of lost productivity that results from a workforce where nearly one-quarter of the employees are in a constant state of transition.

Civil Service Employee Turnover Rate
by Fiscal Year



